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To: John Granville

Date: Jan. 12, 1979

From: Bill Cutler

Subject: Merit - Business Building 1979

I LINE EXTENSION

An opportunity exists for Merit to build volume by the introduction of a box packing in select markets. While Merit enjoys growth in all trading areas, the preponderance of markets where the brand has not kept pace with overall brand gains or low tar category development are highly developed box markets.

Of the twenty highest box SDI markets, ten are markets where Merit has it's largest negative share gap between brand and low tar category shares. These are high volume markets predominantly found on the Eastern and Western coastlines. Importantly, high development is shown in these markets for all brands in a box packing, not just Marlboro.

Merit's media usage pattern provides flexibility. With our high level of spending in ROP, and Outdoor, we could support this effort with tailored box copy, yet overall media efficiencies would remain high. A box line-extension would not interfere with Merit's current advertising strategy.

By broadening our offering/in these markets with low development and slower than average growth for the brand, the many smokers who prefer a box would have even more reason to try Merit. If Merit's share of the low tar category was brought up to current levels in the 20 highest box SDI areas, annual volume would increase from 600 million to one billion units.

II BUSINESS BUILDING 1979

(1) OPPORTUNITY MARKET SUPPORT

Due to increased maturity of Merit, we are now able to identify more clearly the brand's market-by-market opportunities than at any time in the past. Further, we can determine more accurately those circumstances that

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are retarding our performance and offer growth potential to brand.

We have identified twelve high potential markets which have low brand development, a gap in terms of category share for the brand & where Philip Morris' share is both high and above RJR. In total, these markets represent 25% of U.S. population and less than 20% of current Merit volume. Merit volume would increase from 500 to 690 million units annually if the brand had a national share of the low tar category in these markets.

Overall, we would develop and execute an aggressive marketing plan targeted to the needs of each trading area. Our plan would utilize spot market advertising, merchandising, sampling and trade support programs. The program would include on a tailored basis:

--- Specific Menthol support for those areas with strong low tar Menthol franchises but where Merit Menthol is undeveloped.

--- 100s programs in strong low tar 100s markets where Merit 100s need growth.

--- Broad based sampling programs, again tailored to specific markets by distributing 100s and Menthol packings where appropriate and in the proper mix.

--- Development of specialized placement incentive programs for vendors to increase our vending penetration.

(2) OUTDOOR

We believe it is now time to establish for Merit an outdoor campaign program that provides the brand a bigger, more important look on a continuing basis. This could be accomplished through the conversion of our current franchises or the addition of painted boards where available.

(3) SPECIAL MERCHANDISING PROGRAMS

Merit continues to lead the industry in volume increases. It is, therefore, highly susceptible to retail stock outs, especially in high volume carton outlets. To maintain a high in-stock situation for the brand, we will conduct special merchandising programs for Merit in supermarket-type outlets. These programs are especially effective and efficient for fast growth brands.

In summary, it is felt we must maintain the phenominal growth momentum of Merit. By continuing to monitor the market closely and developing programs tailored to the brand's needs, we plan to significantly increase Merit volume in 1979 and beyond.

Bill

cc: R. Fitzmaurice
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